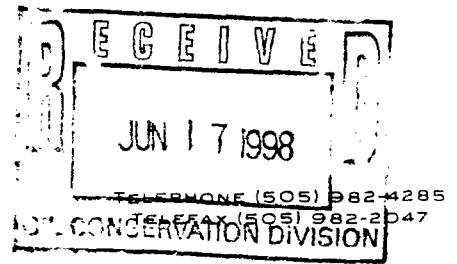


KELLAHIN AND KELLAHIN
ATTORNEYS AT LAW
EL PATIO BUILDING
117 NORTH GUADALUPE
POST OFFICE BOX 2265
SANTA FE, NEW MEXICO 87504-2265

W. THOMAS KELLAHIN*

*NEW MEXICO BOARD OF LEGAL SPECIALIZATION
RECOGNIZED SPECIALIST IN THE AREA OF
NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)



June 17, 1998

Mr. Michael E. Stogner
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505

HAND DELIVERED

Mr. Tim Gum, Supervisor
Oil Conservation Division
811 S. First Street
Artesia, New Mexico 88210

FEDERAL EXPRESS

Re: **Administrative Applications:**
Unorthodox Location and Directional Wellbore
Little Box Canyon "12" Federal Com. Well No. 4
Surface location: ¹⁶⁵⁸1647 feet FEL and ¹⁹³⁰1924 feet FNL
Bottom Hole location: 660 feet FEL and 990 feet FNL
N/2 Section 12, T21S, R21E. NMPM
Application of Nearburg Producing Company
Eddy County, New Mexico

Dear Mr. Stogner:

On behalf of Nearburg Producing Company, please find enclosed our administrative applications for an unorthodox bottom hole gas well location.

We have obtained and enclosed signed waivers from all of the offset operators towards whom this location encroaches. Nearburg informs me that this well is the next well on their drilling schedule and they would appreciate your attention to this matter.

Very truly yours,

A handwritten signature in black ink, appearing to read "W. Thomas Kellahin".

W. Thomas Kellahin

cc: Nearburg Producing Company
Attn: Duke Roush

NEW MEXICO OIL CONSERVATION DIVISION

- Engineering Bureau -

ADMINISTRATIVE APPLICATION COVERSHEET

THIS COVERSHEET IS MANDATORY FOR ALL ADMINISTRATIVE APPLICATIONS FOR EXCEPTIONS TO DIVISION RULES AND REGULATIONS

Application Acronyms:

[NSP-Non-Standard Proration Unit] [NSL-Non-Standard Location]
 [DD-Directional Drilling] [SD-Simultaneous Dedication]
 [DHC-Downhole Commingling] [CTB-Lease Commingling] [PLC-Pool/Lease Commingling]
 [PC-Pool Commingling] [OLS-Off-Lease Storage] [OLM-Off-Lease Measurement]
 [WFX-Waterflood Expansion] [PMX-Pressure Maintenance Expansion]
 [SWD-Soft Water Disposal] [IPI-Injection Pressure Increase]
 [EOR-Qualified Enhanced Oil Recovery Certification] [PPR-Positive Production Response]

[1] TYPE OF APPLICATION - Check Those Which Apply for [A].

[A] Location - Spacing Unit - Directional Drilling

☒ NSL ☐ NSP ☒ DD ☐ SD

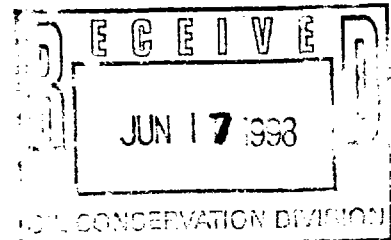
Check One Only for [B] and [C]

[B] Commingling - Storage - Measurement

☐ DHC ☐ CTB ☐ PLC ☐ PC ☐ OLS ☐ OLM

[C] Injection - Disposal - Pressure Increase - Enhanced Oil Recovery

☐ WFX ☐ PMX ☐ SWD ☐ IPI ☐ EOR ☐ PPR



[2] NOTIFICATION REQUIRED TO: - Check Those Which Apply, or ☐ Does Not Apply

[A] ☐ Working, Royalty or Overriding Royalty Interest Owners

[B] ☐ Offset Operators, Leaseholders or Surface Owner

[C] ☐ Application is One Which Requires Published Legal Notice

[D] ☐ Notification and/or Concurrent Approval by BLM or SLO

U.S. Bureau of Land Management - Commissioner of Public Lands, State Land Office

[E] ☐ For all of the above, Proof of Notification or Publication is Attached, and/or,

[F] ☐ Waivers are Attached

[3] INFORMATION / DATA SUBMITTED IS COMPLETE - Statement of Understanding

I hereby certify that I, or personnel under my supervision, have read and complied with all applicable Rules and Regulations of the Oil Conservation Division. Further, I assert that the attached application for administrative approval is accurate and complete to the best of my knowledge and where applicable, verify that all interest (WL, RI, ORRI) is common. I understand that any omission of data, information or notification is cause to have the application package returned with no action taken.

Note: Statement must be completed by an individual with supervisory capacity.

Bob Sholton
 Print or Type Name

Bob Sholton
 Signature

Land Manager
 Title

6/16/98
 Date

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE ADMINISTRATIVE
APPLICATION OF NEARBURG PRODUCING COMPANY
FOR APPROVAL OF A DIRECTIONAL WELLBORE AND
AND UNORTHODOX BOTTOM HOLE LOCATION
EDDY COUNTY, NEW MEXICO

ADMINISTRATIVE APPLICATION

Comes now NEARBURG PRODUCING COMPANY ("Nearburg") by and through its attorneys, KELLAHIN and KELLAHIN, and applies to the New Mexico Oil Conservation Division ("NMOCD") for an exception to Division Rule 104 and for approval of a Directional Wellbore in accordance with Rule 111 to permit it to re-enter the Cities Service Little Box Canyon Well No. 4 which is located at a standard surface location 1647 feet from the East line and 1924 feet from the North line and to directionally drill it to an unorthodox bottom hole location to a point in the top of Morrow "C" formation of the Little Box Canyon-Morrow Gas Pool being a point not closer than 990 feet from the north line or 660 feet from the east line (Unit A) of Section 12, Township 21 South, Range 21 East, NMPM, Eddy County, New Mexico, to be dedicated to a 320-acre gas spacing unit consisting of the N/2 of said Section 21, said location being unorthodox for any and all gas production from any and all formations/pools spaced on 320-acres including but not limited to the Little Box Canyon-Morrow Gas Pool

In support thereof, Applicant states:

1. Applicant, Nearburg, has the right to drill and develop hydrocarbons in the N/2 of Section 12, Township 21 South, Range 21 East, NMPM, Eddy County, New Mexico.
2. Nearburg proposes to re-enter the Cities Service Little Box Canyon Well No. 4 which is located at a standard surface location 1650 feet from the East line and 1980 feet from the North line and to directionally drill it to an unorthodox bottom hole location to a point in the top of Morrow "C" formation of the Little Box Canyon-Morrow Gas Pool being a point not closer than 990 feet from the north line or 660 feet from the east line (Unit A) of Section 12, Township 21 South, Range 21 East, NMPM,

Eddy County, New Mexico, to be dedicated to a 320-acre gas spacing unit consisting of the N/2 of said Section 12, said location being unorthodox for any and all gas production from any and all formations/pools spaced on 320-acres including but not limited to the Little Box Canyon-Morrow Gas Pool.

3. Attached to this application are the following exhibits:

- (a) Administrative Application cover sheet
- (b) Locator Map
- (c) Division Form C-102
- (d) Production map
- (e) geological Gross Morrow Isopach Map
- (f) Directional survey data.

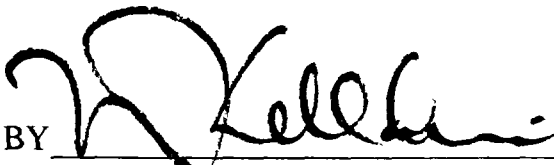
4. Said well will be drilled within the current boundaries of the Little Box Canyon-Morrow Gas Pool.

5. In accordance with NMSA 1977, Section 70-2-33(H) of the "New Mexico Oil and Gas Act", the subject location is necessary so that the applicant will be afforded the opportunity to produce its just and equitable share of the recoverable gas underlying its spacing unit before those reserves are drained by other wells, thereby protecting applicant's correlative rights.

6. In accordance with Division Rule 111 and 104, notification of this application has been sent to all offsetting operators as set forth on Exhibit "G" attached and copies of all waivers of objection are attached as Exhibit "H"

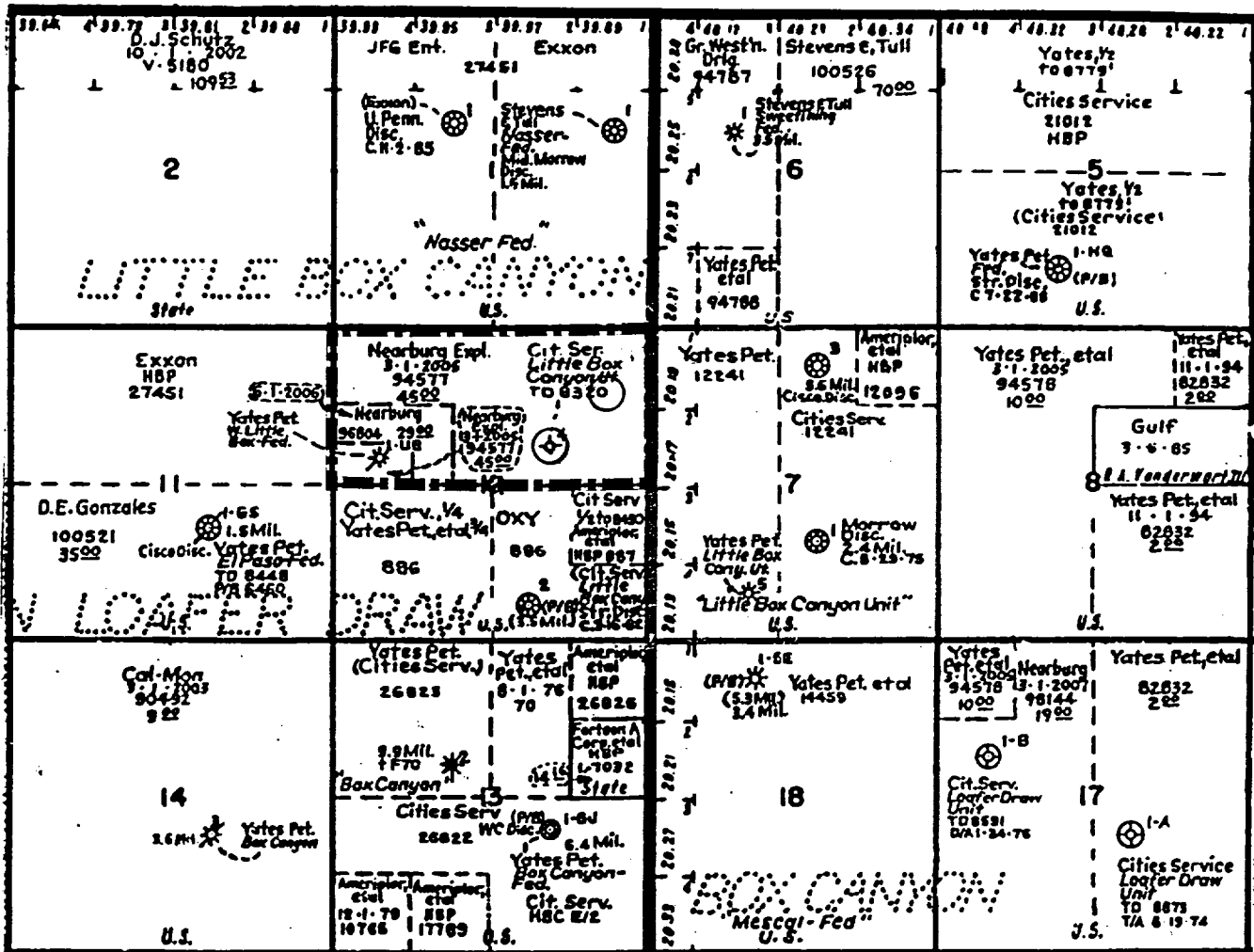
WHEREFORE, Applicant requests that this Application be approved as requested.

KELLAHIN and KELLAHIN

BY 

W. Thomas Kellahin
P. O. Box 2265
Santa Fe, New Mexico 87504
(505) 982-4285

Little Box Canyon
T-21-S, R-22-E
N/2 of Section 12
Eddy county , New Mexico



Proration Unit



Affected Parties



Surface location 1650' FEL, 1980' FNL



Bottom Hole location 990' FNL, 660' FEL



DISTRICT I
P.O. Box 1925, Hobbs, NM 88241-1925

DISTRICT II
P.O. Drawer 10, Artesia, NM 88211-0710

DISTRICT III
1000 Rio Brazos Rd., Artesia, NM 87410

DISTRICT IV
P.O. Box 2088, Santa Fe, NM 87504-2088

State of New Mexico
Energy, Minerals and Natural Resources Department

Form C-102
Revised February 10, 1994
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 2 Copies

OIL CONSERVATION DIVISION
P.O. Box 2088
Santa Fe, New Mexico 87504-2088

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

APT Number	Pool Code	Pool Name
Property Code	Property Name LITTLE BOX CANYON "12" UNIT	Well Number 4Y
OWNER No.	Operator Name NEARBURG PRODUCING COMPANY	Elevation 4455

Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
G	12	21 S	21 E		1924	NORTH	1647	EAST	EDDY

Bottom Hole Location If Different From Surface

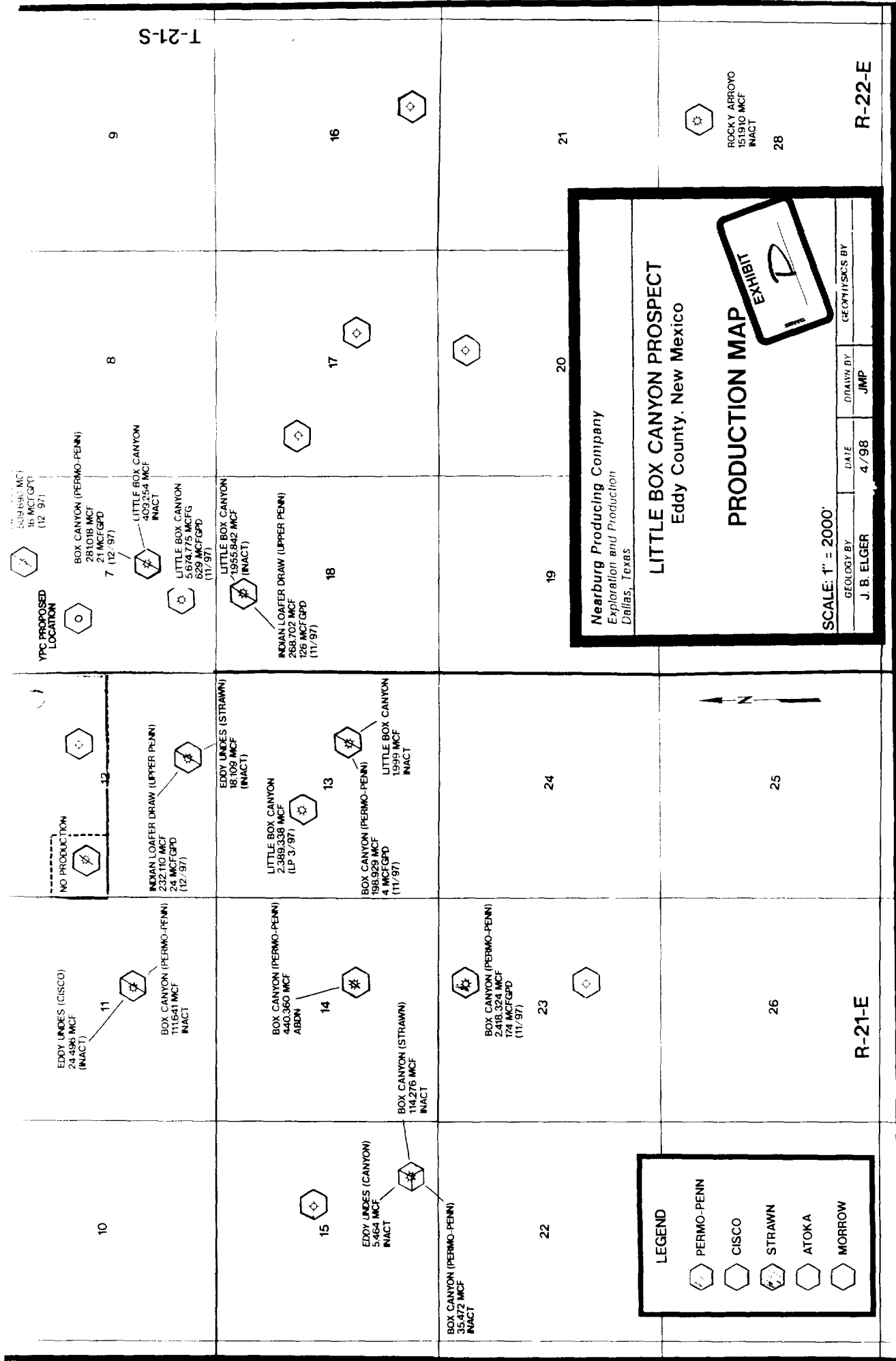
UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
A	12	21 S	21 E		990	NORTH	660	EAST	EDDY

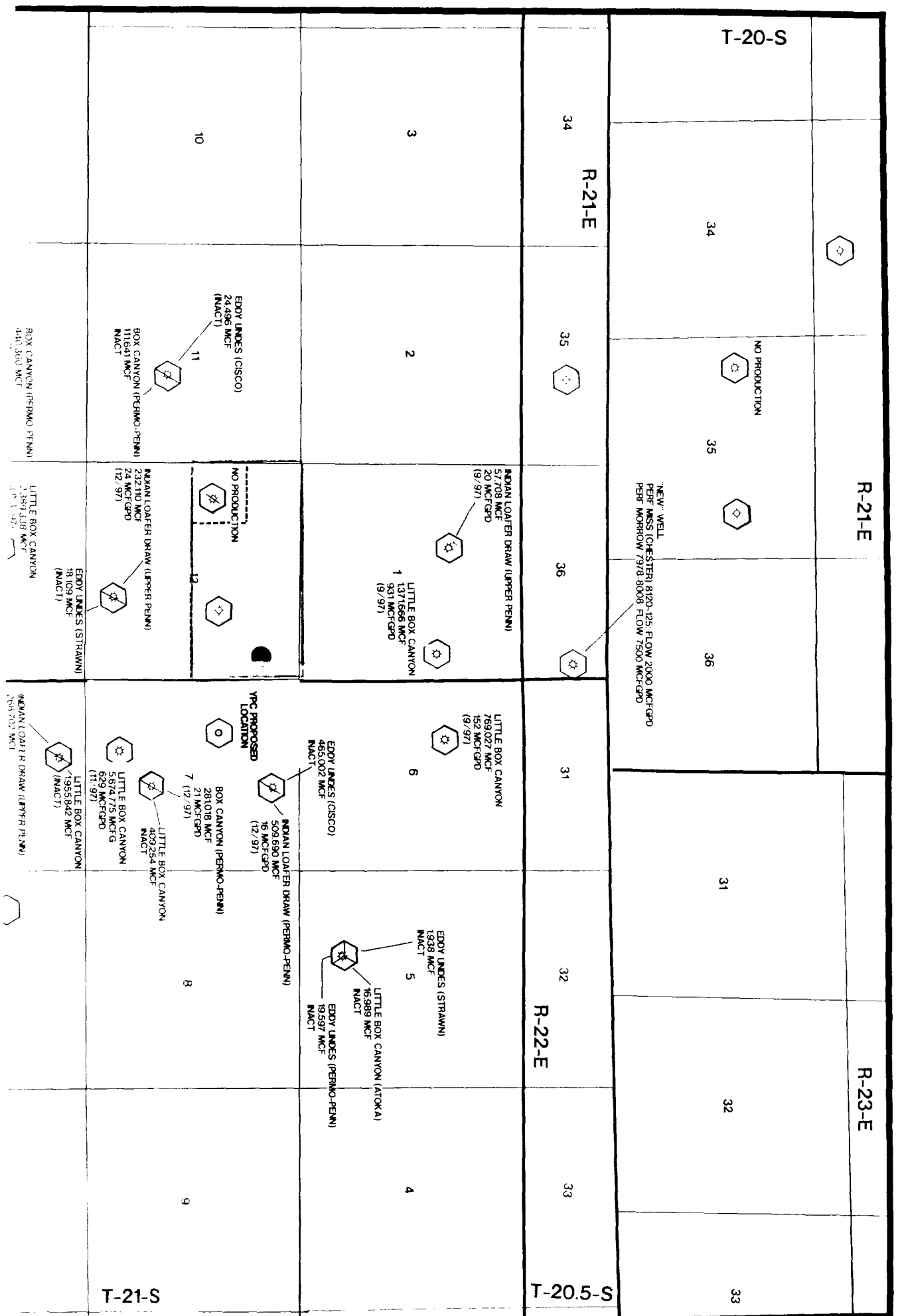
Dedicated Acres	Joint or Infill	Consolidation Code	Order No.

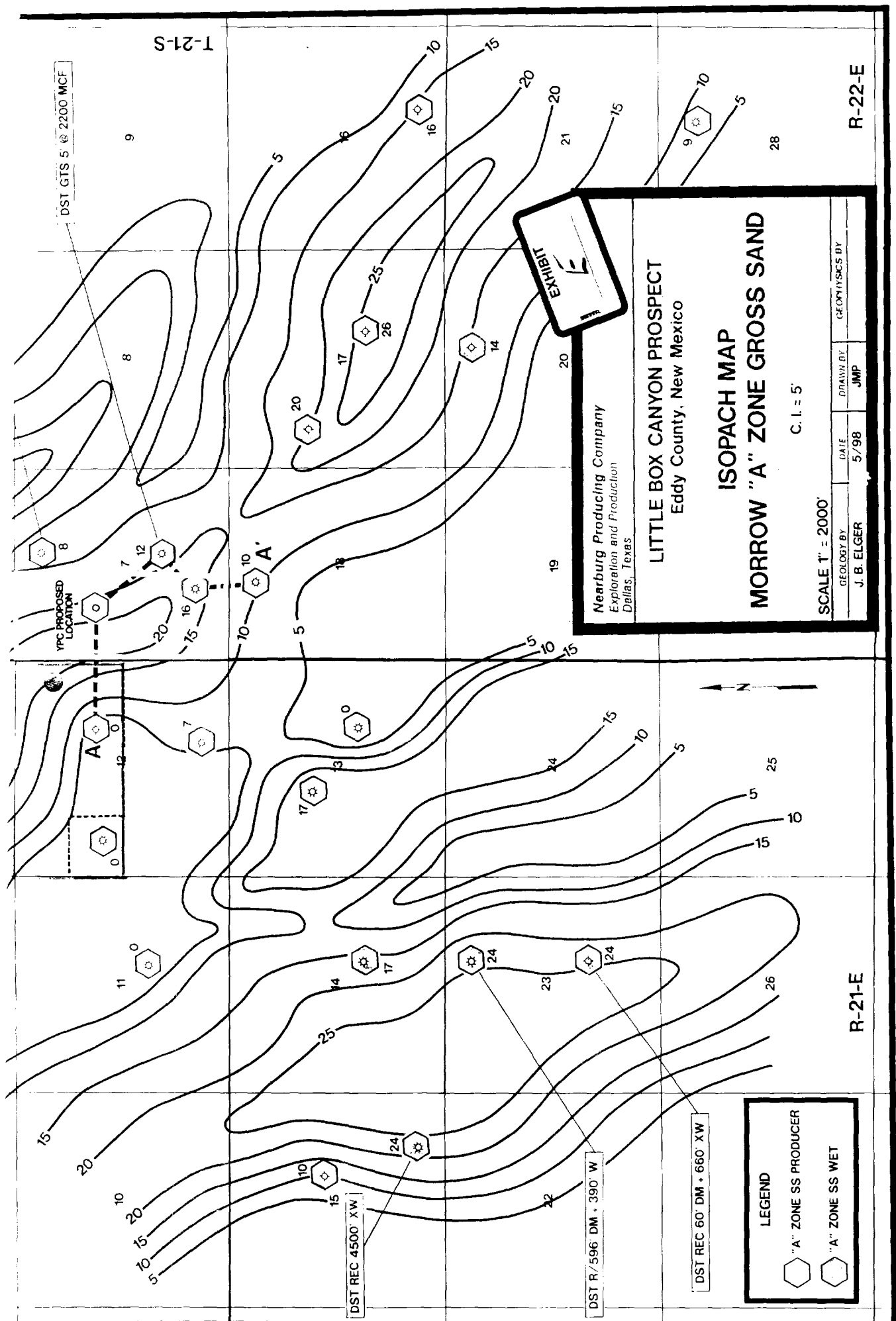
NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED
OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

	OPERATOR CERTIFICATION I hereby certify that the information contained herein is true and correct to the best of my knowledge and belief. Signature _____ Printed Name _____ Title _____ Date _____ SURVEYOR CERTIFICATION I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief. JUNE 4, 1998 Date Surveyed _____ JLP Signature _____ Professional Surveyor NEW MEXICO Surveyor's Seal SW.O. Num 98-10 0874 Surveyor's Name: RONALD E. EDSON, 12219 Surveyor's Address: 12241 Surveyor's Phone: 12125
--	---









DST GTS 5 @ 2200 MCF

YPC PROPOSED LOCATION

DST REC 4500' XW

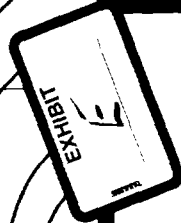
DST R/596 DM + 390' W

DST REC 60' DM + 660' XW

LEGEND

○ "A" ZONE SS PRODUCER

☆ "A" ZONE SS WET



Nearburg Producing Company
Exploration and Production
Dallas, Texas

LITTLE BOX CANYON PROSPECT
Eddy County, New Mexico

ISOPACH MAP

MORROW "A" ZONE GROSS SAND

C. I. = 5'

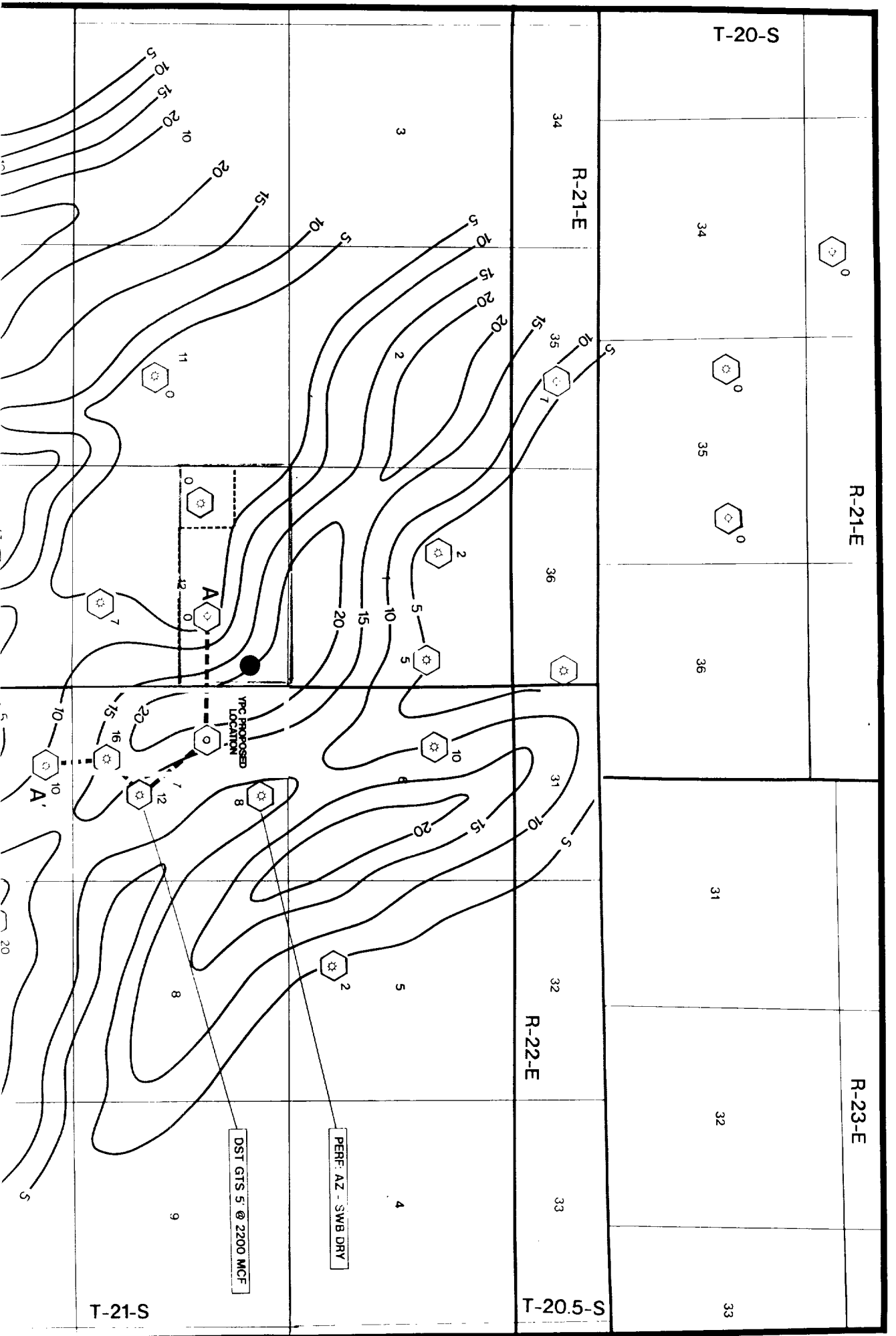
SCALE 1" = 2000'

GEOLOGY BY	DATE	DRAWN BY	GEOPHYSICS BY
J. B. ELGER	5/98	JMP	

R-21-E

R-22-E

T-21-S



APPLICATION FOR PERMIT TO DRILL OR DEEPEN

NM - 0452825

12. TYPE OF WORK DRILL ☒ DEEPEN ☐			6. IF INDIAN, ALLOTTEE OR TRIBE NAME	
b. TYPE OF WELL OIL WELL ☐ GAS WELL ☒ OTHER ☐ SINGLE ZONE ☒ MULTIPLE ZONE ☐			7. UNIT AGREEMENT NAME	
2. NAME OF OPERATOR Nearburg Producing Company			8. FARM OR LEASE NAME, WELL NO. Little Box Canyon "12" Unit #4Y	
3. ADDRESS AND TELEPHONE NO. 3300 North A Street, Building 2, Suite 120, Midland, Texas 79705 (915) 686-8235			9. API WELL NO.	
4. LOCATION OF WELL (Report location clearly and in accordance with any State requirements.) At surface 1,924' FNL and 1,647' FEL At proposed prod. zone 990' FNL and 660' FEL			10. FIELD AND POOL, OR WILDCAT Little Box Canyon - Morrow	
14. DISTANCE IN MILES AND DIRECTION FROM NEAREST TOWN OR POST OFFICE 31 miles West of Carlsbad, New Mexico			11. SEC., T., R., M., OR BLK. AND SURVEY OR AREA Section 12, T21S, R21E	
15. DISTANCE FROM PROPOSED LOCATION TO NEAREST PROPERTY OR LEASE LINE, FT. (Also to nearest drg. unit line, if any) 660'		16. NO. OF ACRES IN LEASE 280	17. NO. OF ACRES ASSIGNED TO THIS WELL 320	
18. DISTANCE FROM PROPOSED LOCATION TO NEAREST WELL, DRILLING, COMPLETED, OR APPLIED FOR, ON THIS LEASE, FT. 1,142'		19. PROPOSED DEPTH 8,432'	20. ROTARY OR CABLE TOOLS Rotary	
21. ELEVATIONS (Show whether DF, RT, GR, etc.) 4,455' GR			22. APPROX. DATE WORK WILL START 07/10/98	

23. PROPOSED CASING AND CEMENTING PROGRAM				
SIZE OF HOLE	GRADE, SIZE OF CASING	WEIGHT PER FOOT	SETTING DEPTH	QUANTITY OF CEMENT
* 17"	13-5/8" H40	48#	295'	250 sacks
* 11"	8-5/8" K55	24#	1,778'	1040 sacks
7-7/8"	5-1/2" N80	17#	8,432'	500 sx

Propose to re-enter and directionally drill to a new BHL to sufficient depth to evaluate Morrow formation. After reaching TD, logs will be run and casing set if the evaluation is positive. Perforate, test and stimulate as necessary. The SHL is 1,924' FNL & 1,647' FEL and new BHL is 660' FEL and 990' FNL, Section 12, T21S, R21E.

Acreage dedication is 320 acres; N/2 of Section 12.

* Existing

IN ABOVE SPACE DESCRIBE PROGRAM: If proposal is to deepen, give data on present productive zone and proposed new productive zone. If proposal is to drill or deepen directionally, give pertinent data on subsurface locations and measured and true vertical depths. Give blowout preventer program, if any.

24. SIGNED [Signature] TITLE Manager of Drilling and Production DATE 6/16/98
(This space for Federal or State office use)

PERMIT NO. _____ APPROVAL DATE _____

Application approval does not warrant or certify that the applicant holds legal or equitable title to those rights in the subject lease which would entitle the applicant to conduct operations thereon.
CONDITIONS OF APPROVAL, IF ANY:

APPROVED BY _____ TITLE _____ DATE _____

***See Instructions On Reverse Side**

Title 18 U.S.C. Section 1001, makes it a crime for any person knowingly and willfully to make to any department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.

SCIENTIFIC DRILLING INTERNATIONAL

MIDLAND, TEXAS

NEARBURG PRODUCING COMPANY

Well Name : LITTLE BOX CANYON ''12'' FEDERAL #1
Site : EDDY COUNTY, NM, SEC. 12 T-21-S, R-21-E
SHL : 1980' FNL & 1650' FEL
PLAN BHL : 990' FNL & 660 FEL
Field : LITTLE BOX CANYON MORROW
Date Surveyed : 20 MAY 1998
: WELL PLAN
:

This survey is correct to the best of my knowledge
and is supported by actual field data.

..... COMPANY REPRESENTATIVE



SCIENTIFIC DRILLING INTERNATIONAL

Client : NEARBURG PRODUCING COMPANY
 Well Name : LITTLE BOX CANYON ''12'' FEDERAL #1
 Site : EDDY COUNTY, NM, SEC. 12 T-21-S, R-21-E
 SHL : 1980' FNL & 1650' FEL
 PLAN BHL : 990' FNL & 660 FEL
 Field : LITTLE BOX CANYON MORROW

Page 1 of 2
 Date 20 MAY 1998
 Filename : CANYON#1

No Interpolation

Height Of WELLSITE Datum Above Field Datum 0.00 ft

MD ft	INC deg	DIR deg	TVD ft	+N/-S ft	+E/-W ft	VS ft	D'LEG °/100
3800.0	0.00	N45.00°E	3800.00	0.00	0.00	0.00	0.0
3900.0	2.25	N45.00°E	3899.97	1.39	1.39	1.96	2.3
4000.0	4.50	N45.00°E	3999.79	5.55	5.55	7.85	2.3
4100.0	6.75	N45.00°E	4099.31	12.48	12.48	17.65	2.3
4200.0	9.00	N45.00°E	4198.36	22.17	22.17	31.35	2.3
4300.0	11.25	N45.00°E	4296.79	34.60	34.60	48.93	2.3
4400.0	13.50	N45.00°E	4394.46	49.75	49.75	70.36	2.3
4500.0	15.75	N45.00°E	4491.22	67.60	67.60	95.61	2.3
4600.0	18.00	N45.00°E	4586.91	88.13	88.13	124.63	2.3
4700.0	19.46	N45.00°E	4681.46	111.13	111.13	157.16	1.5
4800.0	19.46	N45.00°E	4775.75	134.68	134.68	190.47	0.0
4900.0	19.46	N45.00°E	4870.04	158.24	158.24	223.78	0.0
5000.0	19.46	N45.00°E	4964.33	181.79	181.79	257.09	0.0
5100.0	19.46	N45.00°E	5058.62	205.34	205.34	290.39	0.0
5200.0	19.46	N45.00°E	5152.91	228.89	228.89	323.70	0.0
5300.0	19.46	N45.00°E	5247.20	252.44	252.44	357.01	0.0
5400.0	19.46	N45.00°E	5341.49	276.00	276.00	390.32	0.0
5500.0	19.46	N45.00°E	5435.78	299.55	299.55	423.62	0.0
5600.0	19.46	N45.00°E	5530.07	323.10	323.10	456.93	0.0
5700.0	19.46	N45.00°E	5624.36	346.65	346.65	490.24	0.0
5800.0	19.46	N45.00°E	5718.65	370.20	370.20	523.55	0.0
5900.0	19.46	N45.00°E	5812.94	393.76	393.76	556.86	0.0
6000.0	19.46	N45.00°E	5907.23	417.31	417.31	590.16	0.0
6100.0	19.46	N45.00°E	6001.52	440.86	440.86	623.47	0.0
6200.0	19.46	N45.00°E	6095.81	464.41	464.41	656.78	0.0
6300.0	19.46	N45.00°E	6190.10	487.96	487.96	690.09	0.0
6400.0	19.46	N45.00°E	6284.39	511.52	511.52	723.39	0.0
6500.0	19.46	N45.00°E	6378.68	535.07	535.07	756.70	0.0
6600.0	19.46	N45.00°E	6472.97	558.62	558.62	790.01	0.0
6700.0	19.46	N45.00°E	6567.26	582.17	582.17	823.32	0.0
6800.0	19.46	N45.00°E	6661.55	605.73	605.73	856.62	0.0
6900.0	19.46	N45.00°E	6755.84	629.28	629.28	889.93	0.0
7000.0	19.46	N45.00°E	6850.13	652.83	652.83	923.24	0.0
7100.0	19.46	N45.00°E	6944.42	676.38	676.38	956.55	0.0
7200.0	19.46	N45.00°E	7038.71	699.93	699.93	989.86	0.0

SCIENTIFIC DRILLING INTERNATIONAL

Client : NEARBURG PRODUCING COMPANY
 Well Name : LITTLE BOX CANYON ''12'' FEDERAL #1
 Site : EDDY COUNTY, NM, SEC. 12 T-21-S, R-21-E
 SHL : 1980' FNL & 1650' FEL
 PLAN BHL : 990' FNL & 660 FEL
 Field : LITTLE BOX CANYON MORROW

Page 2 of 2
 Date 20 MAY 1998
 Filename : CANYON#1

No Interpolation

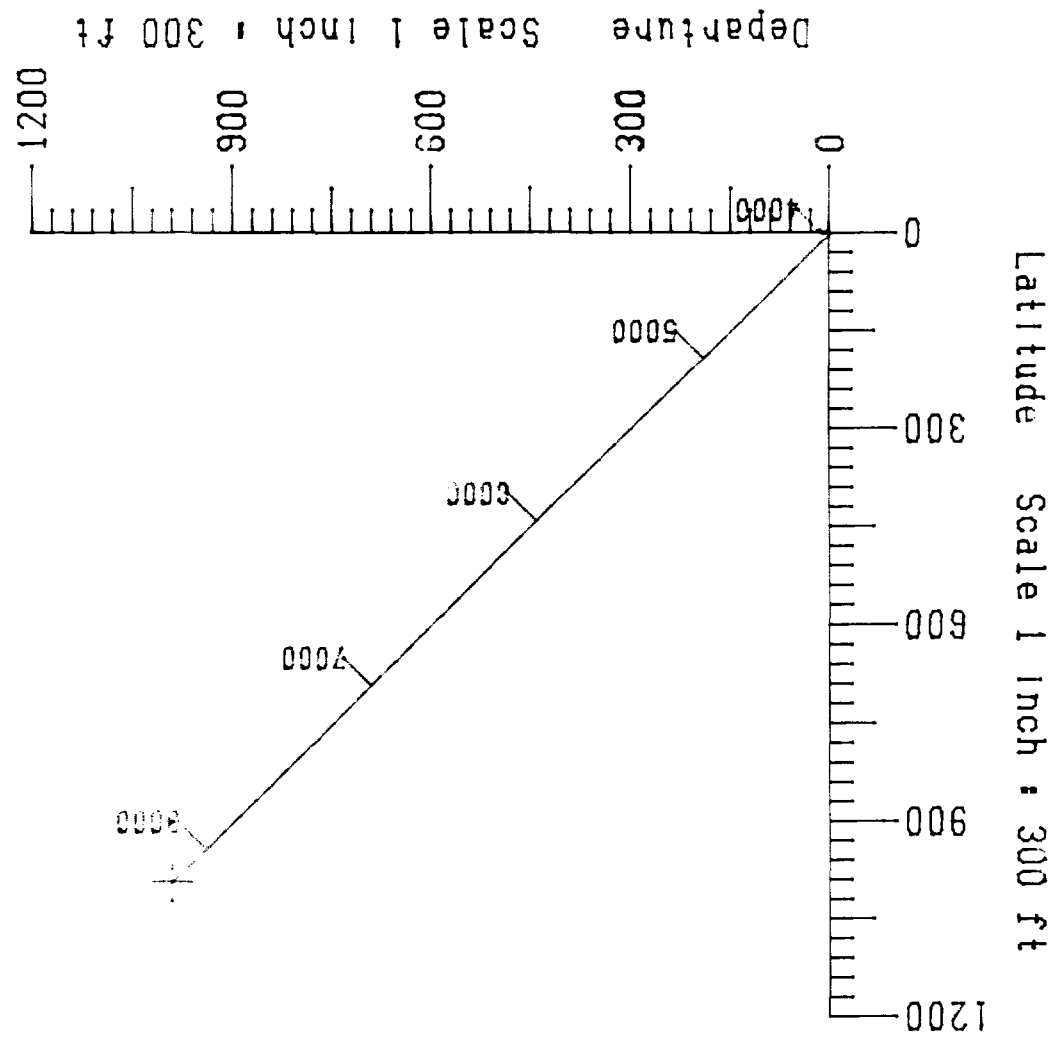
Height Of WELLSITE Datum Above Field Datum 0.00 ft

MD ft	INC deg	DIR deg	TVD ft	+N/-S ft	+E/-W ft	VS ft	D'LEG °/100
7300.0	19.46	N45.00°E	7133.00	723.49	723.49	1023.16	0.0
7400.0	19.46	N45.00°E	7227.29	747.04	747.04	1056.47	0.0
7500.0	19.46	N45.00°E	7321.58	770.59	770.59	1089.78	0.0
7600.0	19.46	N45.00°E	7415.87	794.14	794.14	1123.09	0.0
7700.0	19.46	N45.00°E	7510.16	817.69	817.69	1156.39	0.0
7800.0	19.46	N45.00°E	7604.45	841.25	841.25	1189.70	0.0
7900.0	19.46	N45.00°E	7698.74	864.80	864.80	1223.01	0.0
8000.0	19.46	N45.00°E	7793.03	888.35	888.35	1256.32	0.0
8100.0	19.46	N45.00°E	7887.32	911.90	911.90	1289.63	0.0
8200.0	19.46	N45.00°E	7981.61	935.46	935.46	1322.93	0.0
8300.0	19.46	N45.00°E	8075.90	959.01	959.01	1356.24	0.0
8400.0	19.46	N45.00°E	8170.19	982.56	982.56	1389.55	0.0
8431.6	19.46	N45.00°E	8200.00	990.00	990.00	1400.07	0.0

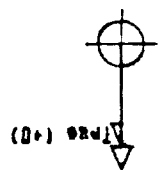
Origin of Bottom Hole Closure WELLSITE CENTRE
 Bottom Hole Closure 1400 ft N45.00°E

PLANE OF VERT SECTA N45 00E
 PLOT DATE 05-21-1998
 TARGET DETAILS
 No TVD Lat Dep
 1 8200.0 990.0 990.0

WELL PROPOSAL
 No MD TVD VS INC DIR LAT DEP TGT
 1 3800.0 3800.0 0.0 0.0 N45 00E 0.0 0.0
 2 4664.7 4648.2 145.4 18.5 N45 00E 102.8 102.8
 3 8431.8 8200.0 1400.1 18.5 N45 00E 890.0 890.0 1



SCIENTIFIC DRILLING
 FOR
 NEARBY PRODUCING COMPANY
 LITTLE BOX CANYON 12th FEDERAL 81
 SEC. 12 T-21-S, R-21-E
 IN
 EMERY COUNTY, NEW MEXICO
 DATE: 28 MAY 1998





SCIENTIFIC DRILLING
FOR
HEARBURG PRODUCING COMPANY
LITTLE BOX CANYON "12" FEDERAL #1
SEC. 12 T-21-S, R-21-E
IN
EDDY COUNTY, NEW MEXICO

DATE: 20 MAY 1939

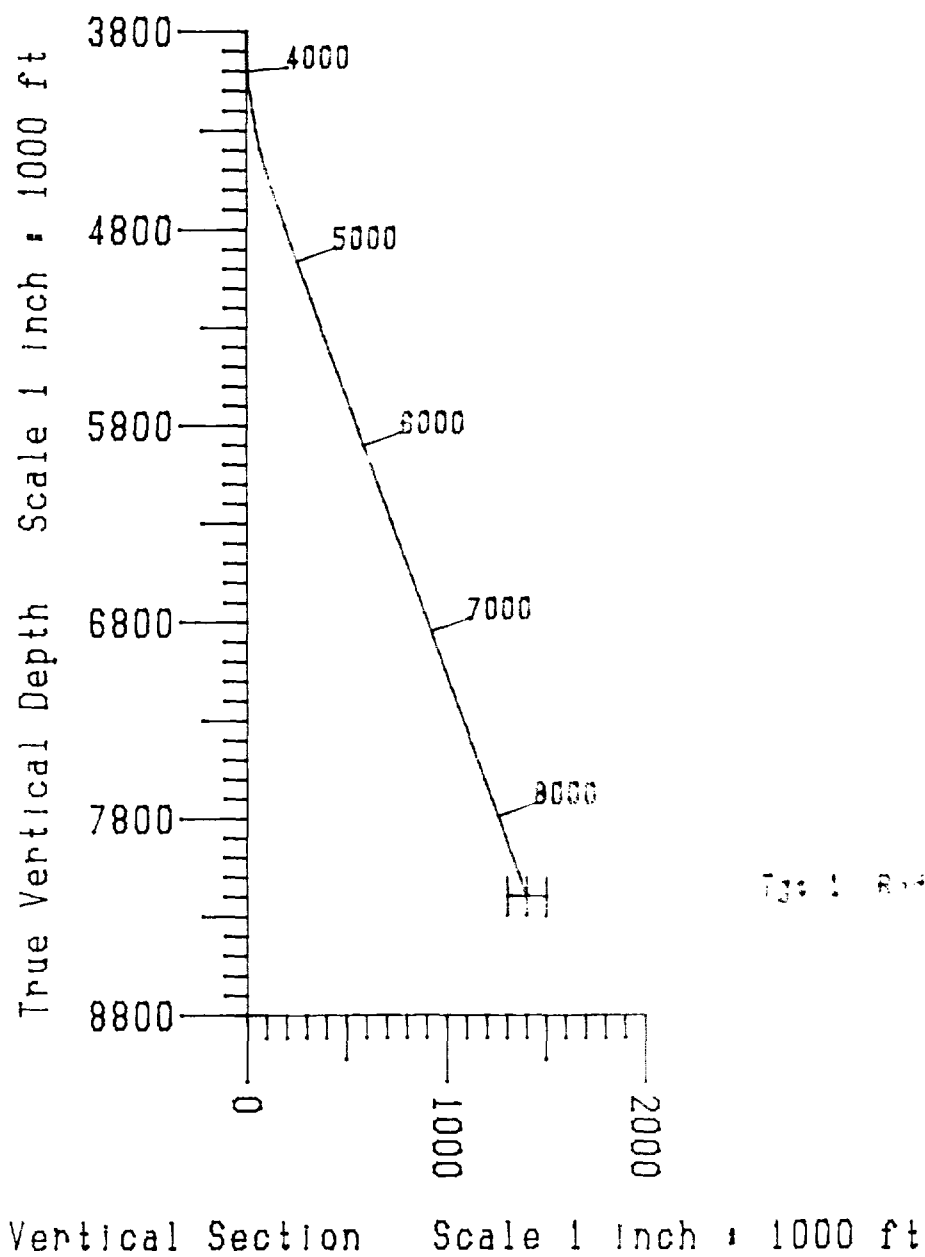
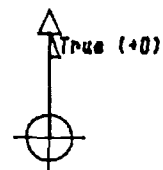


Fig. 1. R. 21-E

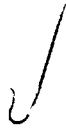
EXHIBIT "G"

Yates Petroleum Corporation
110 South Fourth Street
Artesia, New Mexico 88210-1001



Nadel and Gussman Permian, L.L.C.
601 N. Marienfeld, Suite 508
Midland, Texas 79701

Stevens & Tull, Inc.
Box 11005
Midland, Texas 79702
Attn: Jerry Weant



Duke

STEVENS & TULL, INC.
MIDLAND, TEXAS 79702

P. O. BOX 11005

915/699-1410

June 1, 1998

Nearberg Exploration Company
3300 North "A" Street
Building 2, Suite 120
Midland, Texas 79705

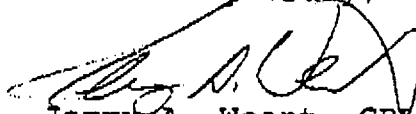
Attn: Mr. Bob Shelton

Re: Waiver of Unorthodox Location
Little Box Canyon 12 Federal
Com #1
1650' FEL & 1980' FNL Sec. 12,
T-21-S, R-21-E, N.M.P.M.,
Eddy County, New Mexico

Gentlemen:

Please be advised that Stevens & Tull, Inc. hereby waives any objections to the captioned well being drilled to a bottom hole location of 990' FNL and 660' FEL of Section 12, T-21-S, R-21-E, Lea County, New Mexico. If we can be of further assistance, please contact our office.

Yours very truly,


Jerry A. Weant, CPE
Vice President-Land

f:\lt\waiver.nrb



MARTIN YATES, III
1912 - 1985
FRANK W. YATES
1936 - 1986



105 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210
TELEPHONE (505) 748-1471

S. P. YATES
CHAIRMAN OF THE BOARD
JOHN A. YATES
PRESIDENT
PEYTON YATES
EXECUTIVE VICE PRESIDENT
RANDY G. PATTERSON
SECRETARY
DENNIS G. KINSEY
TREASURER

June 1, 1998

Mr. Bob Shelton
Nearburg Exploration Company, Inc.
3300 N. "A" Street, Bldg 2, Suite 120
Midland, Texas 79705

RE: Little Box Canyon
Eddy County, New Mexico

Dear Bob:

In reference to our telephone conversation on May 29, 1998 this is to advise you that we will not protest your unorthodox bottom hole well location of 990' FNL & 660' FEL of Section 12-T21S-R21E provided you don't protest us on the following issues:

1. Our location of 1980' FNL & 1190' FWL of Section 7, T21S-R22E or any legal location of our choice.
2. Non-Standard spacing units for our existing Little Box Canyon "AOX" #1 well and our proposed Little Box Canyon "AOX" #2 well.
3. A simultaneous dedication or new pool after we drill the Little Box Canyon "AOX" #2 as proposed in one above.

It would be appreciated if you would please review the above and then sign same below agreeing not to protest.

Very truly yours,

YATES PETROLEUM CORPORATION

Douglas W. Hurlbut
Landman

DWH/dc

Page 2
Nearburg Exploration Company, Inc.
Little Box Canyon
Eddy County, New Mexico

AGREED TO AND ACCEPTED this _____ day of _____, 1998

Nearburg Exploration Company, Inc.

By: 

Yates Petroleum Corporation
Yates Drilling Company

By: _____

Estate Of Lillie M. Yates
Sharbro Oil Ltd Co.

By: _____

Los Chicos
John A. Yates
Estate of Peggy A. Yates

By: _____

James D. Brown, Jr.

By: _____

Roy L. Crow

By: _____

Fagadau Energy Corporation

By: _____

Pathfinder Exploration Company

By: _____

Scott E. Wilson

By: _____

Cannon Exploration Company

By: _____

Todd M. Wilson

By: _____

Nadel and Gussman Permian, L.L.C.

By: _____